

Service Date: November 28, 1990

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER of the Application )  
of the CITY OF GREAT FALLS for )  
Authority to Increase Rates and )  
Charges for Water Service to its )  
Great Falls, Montana Customers. )

UTILITY DIVISION  
DOCKET NO. 90.10.67  
ORDER NO. 5523

INTERIM RATE ORDER

FINDINGS OF FACT

1. On November 5, 1990, the City of Great Falls (Applicant or City) filed an application with this Commission for authority to permanently increase water rates for its Great Falls, Montana customers by approximately 45.2%, which constitutes an annual revenue increase of approximately \$1,591,100.

2. Concurrent with this filing for a permanent increase in rates, the City filed an application for interim rate relief. The City requested an interim increase in rates of 26.4%, equaling a revenue increase of approximately \$927,800 or 58% of the proposed permanent increase.

3. Before the Commission will authorize interim rate relief utility is it insists on a clear showing that the petitioning suffering an obvious income deficiency. Generally, the Commission finds that reference to the adjustments approved in the most recent general rate order of the petitioning utility provides an appropriate means to measure financial performance.

4. The City has not filed a general rate increase application with the Commission since 1981. Therefore, since the previous rate decision is approximately 9 years-old, the Commission finds that the previous rate decision is not an appropriate basis for determining financial performance. For purpose of measuring the City's financial performance, and so as to determine a need for interim rate relief in this Docket, the Commission will rely on the City's actual fiscal year 1990 financial information, adjusted

for rate increases and certain operating cost increases alleged by the Applicant.

5. Examination of the fiscal year 1990 financial information (revenue adjusted to reflect local level increase) submitted by the City indicates that the utility did not generate sufficient revenue to cover its costs of operation and debt service. The City water utility fell short of covering these costs by \$34,900.

6. During discussions with City staff regarding proforma adjustments to the 1990 financial information, it came to light that the City's rate consultants were provided an unaudited preliminary 1990 financial statement for purposes of presenting financial information in the City's water rate study. When questioned about certain substantial increases in expenses contained in the water rate study, the City staff, after reviewing available information, represented that the preliminary financial statement used by the consultants appeared to omit salary and benefits of employees for one pay period.

7. The apparent omission of payroll expenses for one pay period resulted in the financial statement, as presented, understating the City's cost of providing water service. Since the Commission's interim rate policy is to insure the financial integrity of a petitioning utility, the Commission must include the omitted expenses in its calculation of need for interim rate relief.

8. To determine the amount of omitted payroll expenses the Commission will sum all payroll included in the presented operating statement and divide that amount by 23, the number of pay periods included in the statement. The Commission finds that for interim Purposes the City has omitted \$43,817 in payroll expenses.

9. The City currently has an outstanding revenue bond, therefore, it must meet the requirements of the revenue bond indenture. In the sale of municipal bonds, the purchasers of the bonds must be assured that their investment is secure. To provide this security, the municipality makes a promise, called a covenant, to do certain things which will ensure that it will always be able to pay the bonds principal and interest as they come due. As part of its current bond indenture, the City has agreed to a covenant requiring that it achieve a minimum bond coverage of 125%.

10. The City represents in its filing that, as a result of insufficient revenue generation by the water utility, it has been unable to meet the requirements of its revenue bond indenture insofar as it relates to the 125% bond coverage requirement. Failure to meet the bond coverage requirement of the current bond indenture places the City in technical default. Since the bond coverage requirement is a component of the City's overall cost of providing water service it is properly recoverable through rates.

11. As provided for in the City's current revenue bond indenture, the required net operating income is calculated by multiplying the annual principal and interest payment on outstanding bonds by 25%. The City's principal and interest payment on bonds is \$1,169,000. Therefore, based on requirements of the bond indenture, the City is required to generate net operating income of \$292,250 ( $\$1,169,000 \times .25 = \$292,250$ ). As previously stated in Finding 5, the water utility generated an operating loss of \$34,900 during 1990. The operating loss sustained by the City's water utility, when compared to required net operating income, clearly indicates that the City is violating the requirements imposed on it by its debt holders.

12. The City as part of its request for interim rate relief has included \$500,000 for "Cash Financed Capital Improvements".

The Commission fully supports the adequate funding of capital improvements, financed through current revenues, when that funding is tied to a schedule of contemplated system improvements. The City, in this instance, has requested cash funding for certain capital improvements and tied it to a contemplated schedule, but the Commission is hesitant to grant funding at the level requested on an interim basis. The financing of capital improvements and the contemplated improvement schedule are issues in this Docket. Therefore, the Commission, pending full investigation of these issues, is not willing to authorize funding at the level requested. If it authorized funding at the level requested, the Commission contrary to its interim rate policies, would be prejudging contested issues in the interim order.

13. Although the Commission is unwilling to authorize funding of "Cash Financed Capital Improvements" at the level requested, the water utility will not be totally without funds to

make these improvements. The funds generated by the 125% coverage ratio, in the amount of \$292,250, are unencumbered funds of the water utility and therefore can be used to pay for "Cash Financed Capital Improvements."

14. The City in its filing represents that the water utility has incurred a debt obligation through the execution of an interfund loan, i.e., the water fund has borrowed \$2,090,500 from the City's central garage fund. The City indicates that the water utility borrowed the money to make capital improvements to the water system. The City further indicates that the water utility has a requirement to repay \$169,300 of this loan during the next year. The interfund loan is a debt obligation which must be satisfied and the Commission will recognize the cost for interim purposes. However, the Commission, during the course of this proceeding, will be investigating the interfund borrowing to determine the reasonableness of the transaction and the underlying rationale for entering into the agreement.

15. The Commission finds, based on the preceding Findings of Fact, that the water utility is suffering an obvious income deficiency in this instance; that deferred rate relief until a final order can be issued may adversely affect the utility's financial condition; and, further, that under the Commission's current rate making standards the utility may be entitled to rate relief at the time a final order is issued.

16. The Commission finds that the City's water utility is not meeting the terms and conditions of its bond indenture agreement; the water utility is sustaining losses; and the water utility has an obligation to repay a loan from the City's central garage fund. Accordingly, the Commission finds that the City is entitled to interim rate relief of \$540,267.

17. The Applicant shall generate the increased annual revenue authorized in this order by increasing all rates and charges by a uniform percentage.

### CONCLUSIONS OF LAW

1. The City of Great Falls is a public utility as defined in Section 69-3-101, MCA. The

Montana Public Service Commission properly exercises jurisdiction over the Applicant's rates.

Title 69, Chapter 7, MCA.

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion , temporarily approve increases pending a hearing or final decision."
3. The Commission concludes that the grant of an interim rate increase is just, reasonable and within the discretion granted by Section 69-3-304, MCA.
4. The increase granted herein is subject to rebate should the final order conclude that either no increase or a lesser increase is warranted. 69-3-304, MCA.

### ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The City of Great Falls is hereby granted authority to implement, on an interim basis, increased rates for its Great Falls, Montana customers designed to generate additional annual revenues in the amount of \$540.267.
2. The City of Great Falls is to file revised tariff schedules spreading the increased revenues as a uniform percentage increase to all services.
3. The interim relief granted in this Order is to be effective upon Commission approval of the revised tariff schedules.

DONE IN OPEN SESSION at Helena, Montana this 19th day of November, 1990 by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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HOWARD L. ELLIS, Chairman

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DANNY OBERG, Vice-Chairman

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WALLACE “W” WALLY MERCER, Commissioner

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JOHN B. DRISCOLL, Commissioner

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REX MANUEL, Commissioner

ATTEST:

Ann Peck

Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.